Thembisile Hani Local Municipality
Annual Financial Statements
for the year ended June 30, 2011

General Information

Mayoral committee	
Executive Mayor	Clr NJ Mahlangu
Councillors	Clr PP Mojela
	Clr B Sibanyoni
	Clr S Mnguni
	Clr JJ Tau
	Clr LM Tshabangu
	Clr LM Mboweni
	Clr JJ Jiyane
Grading of local authority	Grade 3
Chief Finance Officer (CFO)	T Ratau
Accounting Officer	
	S Magwaza
Registered office	24 Kwaggafontein C Opposite Police Station Kwaggafontein 3100
Postal address	Private Bag X4041 Empumalanga 3100
Bankers	First National Bank
Auditors	Auditor-General

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The reports and statements set out below comprise the annual financial statements presented to the council:

Abbreviations

COID	Compensation for Occupational Injuries and Diseases
CRR	Capital Replacement Reserve
DBSA	Development Bank of South Africa
SA GAAP	South African Statements of Generally Accepted Accounting Practice
GRAP	Generally Recognised Accounting Practice
GAMAP	Generally Accepted Municipal Accounting Practice
IAS	International Accounting Standards
IMFO	Institute of Municipal Finance Officers
IPSAS	International Public Sector Accounting Standards
ME's	Municipal Entities
MEC	Member of the Executive Council
MFMA	Municipal Finance Management Act
MIG	Municipal Infrastructure Grant (Previously CMIP)

Accounting Officer's Responsibilities and Approval

The accounting officer is required by the Municipal Finance Management Act (Act 56 of 2003), to maintain adequate accounting records and is responsible for the content and integrity of the annual financial statements and related financial information included in this report. It is the responsibility of the accounting officer to ensure that the annual financial statements fairly present the state of affairs of the municipality as at the end of the financial year and the results of its operations and cash flows for the period then ended. The Auditor General of South Africa are engaged to express an independent opinion on the annual financial statements and was given unrestricted access to all financial records and related data.

The annual financial statements have been prepared in accordance with Standards of Generally Recognised Accounting Practice (GRAP) including any interpretations, guidelines and directives issued by the Accounting Standards Board.

The annual financial statements are based upon appropriate accounting policies consistently applied and supported by reasonable and prudent judgements and estimates.

The accounting officer acknowledges that he is ultimately responsible for the system of internal financial control established by the municipality and place considerable importance on maintaining a strong control environment. To enable the accounting officer to meet these responsibilities, the council sets standards for internal control aimed at reducing the risk of error or loss in a cost effective manner. The standards include the proper delegation of responsibilities within a clearly defined framework, effective accounting procedures and adequate segregation of duties to ensure an acceptable level of risk. These controls are monitored throughout the municipality and all employees are required to maintain the highest ethical standards in ensuring the municipality’s business is conducted in a manner that in all reasonable circumstances is above reproach. The focus of risk management in the municipality is on identifying, assessing, managing and monitoring all known forms of risk across the municipality. While operating risk cannot be fully eliminated, the municipality endeavours to minimise it by ensuring that appropriate infrastructure, controls, systems and ethical behaviour are applied and managed within predetermined procedures and constraints.

The accounting officer is of the opinion, based on the information and explanations given by management, that the system of internal control provides reasonable assurance that the financial records may be relied on for the preparation of the annual financial statements. However, any system of internal financial control can provide only reasonable, and not absolute, assurance against material misstatement or loss.

The accounting officer has reviewed the municipality’s cash flow forecast for the year to 30 June 2012 and, in the light of this review and the current financial position, he is satisfied that the municipality has or has access to adequate resources to continue in operational existence for the foreseeable future.

The municipality is wholly dependent on the Equitable Share for continued funding of operations. The annual financial statements are prepared on the basis that the municipality is a going concern and that the Provincial Treasury has neither the intention nor the need to liquidate or curtail materially the scale of the municipality.

The Auditor General of South Africa are responsible for independently reviewing and reporting on the municipality's annual financial statements. The annual financial statements have been audited by the Auditor General of South Africa and their report is presented on page 4.

The annual financial statements set out on pages 4 to 38, which have been prepared on the going concern basis, were approved by the on May 31, 2011 and were signed on its behalf by:

S Magwaza
Municipal Manager

Accounting Officer's Report

The accounting officer submits his report for the year ended June 30, 2011.

1. Review of activities

Main business and operations

The municipality is engaged in municipal services and operates principally in South Africa.

The operating results and state of affairs of the municipality are fully set out in the attached annual financial statements and do not in our opinion require any further comment.

2. Going concern

The annual financial statements have been prepared on the basis of accounting policies applicable to a going concern. This basis presumes that funds will be available to finance future operations and that the realisation of assets and settlement of liabilities, contingent obligations and commitments will occur in the ordinary course of business.

3. Subsequent events

The accounting officer is not aware of any matter or circumstance arising since the end of the financial year.

Statement of Financial Position

Figures in Rand	Notes	2011	2010
Assets			
Current Assets			
Trade and other receivables	4	17,018,814	14,839,391
VAT receivable	5	6,294,052	28,323,967
Cash and cash equivalents	6	84,584,233	52,330,850
Total Current Assets		**107,897,099**	**95,494,208**
Non-Current Assets			
Property, plant and equipment	3	110,736,224	65,769,953
Total Non-Current Assets		**110,736,224**	**65,769,953**
Total Assets		**218,633,323**	**161,264,161**
Liabilities			
Current Liabilities			
Trade and other payables	9	14,356,679	22,072,738
Unspent conditional grants	7	49,419,642	38,412,478
Total Current Liabilities		**63,776,321**	**60,485,216**
Non-Current Liabilities			
Provisions	8	8,626,160	8,511,798
Total Non-Current Liabilities		**8,626,160**	**8,511,798**
Total Liabilities		**72,402,481**	**68,997,014**
Net Assets			
Reserves			
Accumulated surplus		146,230,842	92,267,147
Total Net Assets		**146,230,842**	**92,267,147**

Statement of Financial Performance

Figures in Rand	Notes	2011	2010
Revenue	10	287,581,981	224,585,519
Other income		4,133,710	5,322,422
Operating expenses		(251,200,324)	(214,780,433)
Operating surplus	14	**40,515,367**	**15,127,508**
Investment revenue	17	13,448,328	9,630,871
Surplus for the year		**53,963,695**	**24,758,379**

Statement of Changes in Net Assets

Figures in Rand	Housing development fund	Accumulated surplus	Total net assets
Balance at July 01, 2009	**4,671,486**	**1,783,476**	**6,454,962**
Restated profit for the year	-	24,758,379	24,758,379
Correction of prior year error	(4,671,486)	65,725,287	61,053,801
Balance at July 01, 2010	**-**	**92,267,147**	**92,267,147**
Surplus for the year	-	53,963,695	53,963,695
Balance at June 30, 2011	**-**	**146,230,842**	**146,230,842**

Cash flow statement

Figures in Rand	Notes	2011	2010
Cash flows from operating activities			
Receipts			
Sale of goods and services		751,417	18,815,106
Grants		251,979,353	208,346,940
Interest income		4,168,740	4,082,696
Other receipts		1,979,303	5,322,433
Total receipts		**258,878,813**	**236,567,175**
Payments			
Employee costs		(58,417,211)	(53,212,740)
Suppliers		(123,733,604)	(144,446,615)
Total payments		**(182,150,815)**	**(197,659,355)**
Net cash flows from operating activities	21	**76,727,998**	**38,907,820**
Cash flows from investing activities			
Purchase of property, plant and equipment	3	(44,474,615)	(25,354,456)
Net increase/(decrease) in cash and cash equivalents		**32,253,383**	**13,553,364**
Cash and cash equivalents at the beginning of the year		52,330,850	38,777,486
Cash and cash equivalents at the end of the year	6	**84,584,233**	**52,330,850**

Accounting Policies

1. Presentation of Annual Financial Statements

The annual financial statements have been prepared in accordance with the effective Standards of Generally Recognised Accounting Practice (GRAP) including any interpretations, guidelines and directives issued by the Accounting Standards Board.

These annual financial statements have been prepared on an accrual basis of accounting and are in accordance with historical cost convention unless specified otherwise. They are presented in South African Rand.

A summary of the significant accounting policies, which have been consistently applied, are disclosed below.

These accounting policies are consistent with the previous period.

1.1 Significant judgements and sources of estimation uncertainty

In preparing the annual financial statements, management is required to make estimates and assumptions that affect the amounts represented in the annual financial statements and related disclosures. Use of available information and the application of judgement is inherent in the formation of estimates. Actual results in the future could differ from these estimates which may be material to the annual financial statements. Significant judgements include:

Trade receivables

The municipality assesses its trade receivables for impairment at the end of each reporting period. In determining whether an impairment loss should be recorded in surplus or loss, the municipality makes judgements as to whether there is observable data indicating a measurable decrease in the estimated future cash flows from a financial asset.

The impairment for trade receivables is calculated on a portfolio basis, based on historical loss ratios, adjusted for national and industry-specific economic conditions and other indicators present at the reporting date that correlate with defaults on the portfolio. These annual loss ratios are applied to loan balances in the portfolio and scaled to the estimated loss emergence period.

Impairment testing

The recoverable amounts of cash-generating units and individual assets have been determined based on the higher of value-in-use calculations and fair values less costs to sell. These calculations require the use of estimates and assumptions. It is reasonably possible that the fair value assumption may change which may then impact our estimations and may then require a material adjustment to the carrying value of tangible assets.

The municipality reviews and tests the carrying value of assets when events or changes in circumstances suggest that the carrying amount may not be recoverable. Assets are grouped at the lowest level for which identifiable cash flows are largely independent of cash flows of other assets and liabilities. If there are indications that impairment may have occurred, estimates are prepared of expected future cash flows for each group of assets. Expected future cash flows used to determine the value in use of tangible assets are inherently uncertain and could materially change over time. They are significantly affected by a number of factors including supply and demand, together with economic factors such as exchange rates, inflation and interest.

Provisions

Provisions were raised and management determined an estimate based on the information available. Additional disclosure of these estimates of provisions are included in note 8 - Provisions.

Useful lives of waste and water network and other assets

The municipality's management determines the estimated useful lives and related depreciation charges for the waste water and water networks. This estimate is based on industry norm. Management will increase the depreciation charge where useful lives are less than previously estimated useful lives.

1.2 Property, plant and equipment

Property, plant and equipment are tangible non-current assets (including infrastructure assets) that are held for use in the production or supply of goods or services, rental to others, or for administrative purposes, and are expected to be used during more than one period.

Accounting Policies

1.2 Property, plant and equipment (continued)

The cost of an item of property, plant and equipment is recognised as an asset when:
- it is probable that future economic benefits or service potential associated with the item will flow to the municipality; and
- the cost of the item can be measured reliably.

Property, plant and equipment is initially measured at cost.

The cost of an item of property, plant and equipment is the purchase price and other costs attributable to bring the asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Trade discounts and rebates are deducted in arriving at the cost.

Where an asset is acquired at no cost, or for a nominal cost, its cost is its fair value as at date of acquisition.

Where an item of property, plant and equipment is acquired in exchange for a non-monetary asset or monetary assets, or a combination of monetary and non-monetary assets, the asset acquired is initially measured at fair value (the cost). If the acquired item's fair value was not determinable, it's deemed cost is the carrying amount of the asset(s) given up.

When significant components of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment.

Costs include costs incurred initially to acquire or construct an item of property, plant and equipment and costs incurred subsequently to add to, replace part of, or service it. If a replacement cost is recognised in the carrying amount of an item of property, plant and equipment, the carrying amount of the replaced part is derecognised.

The initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located is also included in the cost of property, plant and equipment, where the entity is obligated to incur such expenditure, and where the obligation arises as a result of acquiring the asset or using it for purposes other than the production of inventories.

Recognition of costs in the carrying amount of an item of property, plant and equipment ceases when the item is in the location and condition necessary for it to be capable of operating in the manner intended by management.

Major spare parts and stand by equipment which are expected to be used for more than one period are included in property, plant and equipment. In addition, spare parts and stand by equipment which can only be used in connection with an item of property, plant and equipment are accounted for as property, plant and equipment.

Major inspection costs which are a condition of continuing use of an item of property, plant and equipment and which meet the recognition criteria above are included as a replacement in the cost of the item of property, plant and equipment. Any remaining inspection costs from the previous inspection are derecognised.

Property, plant and equipment are not yet depreciated as the municipality has applied the transitional provisions as set out in Directive 4. The municipality is in the process of determining the residual values and useful lives of all assets. Expertise of a service provider was sourced to assist with the process.

The useful lives of items of property, plant and equipment have been assessed as follows:

Item	**Average useful life**
Land	N/A
Buildings	30
Infrastructure	
• Roads and paving	10 - 15
• Pedestrian malls	30
• Electricity	20
• Water	20
• Sewerage	20
Community	
• Buildings	30
• Recreational facilities	30
• Security - fencing	3
• Halls	30
• Libraries	30
• Parks and gardens	30

1.2 Property, plant and equipment (continued)

Other assets

• Buildings	30
• Specialised vehicles	5 - 7
• Other vehicles	5
• Office equipment	5
• Furniture and fittings	5 - 7
• Bins and containers	10
• Specialised plant and equipment	7
• Other items of plant and equipment	5
• Landfill sites	N/A
• Quarries	N/A
• Emergency equipment	7
• Computer equipment	3 - 5

Items of property, plant and equipment are derecognised when the asset is disposed of or when there are no further economic benefits or service potential expected from the use of the asset.

The gain or loss arising from the derecognition of an item of property, plant and equipment is included in surplus or loss when the item is derecognised. The gain or loss arising from the derecognition of an item of property, plant and equipment is determined as the difference between the net disposal proceeds, if any, and the carrying amount of the item.

Assets which the municipality holds for rentals to others and subsequently routinely sell as part of the ordinary course of activities, are transferred to inventories when the rentals end and the assets are available-for-sale. These assets are not accounted for as non-current assets held for sale. Proceeds from sales of these assets are recognised as revenue. All cash flows on these assets are included in cash flows from operating activities in the cash flow statement.

Transitional provision

The municipality changed its accounting policy for property, plant and equipment in 2011. The change in accounting policy is made in accordance with its transitional provision as per Directive 4 of the GRAP Reporting Framework.

According to the transitional provision, the is not required to measure property, plant and equipment for reporting periods beginning on or after a date within three years following the date of initial adoption of the Standard of GRAP on Property, plant and equipment. Property, plant and equipment has accordingly been recognised at provisional amounts, as disclosed in 3. The transitional provision expires on Saturday, June 30, 2012.

In accordance with the transitional provision as per Directive 4 of the GRAP Reporting Framework, where property, plant and equipment was acquired through a transfer of functions, the municipality is not required to measure that property, plant and equipment for a period of three years from the effective date of the transfer of functions or the effective date of the Standard, whichever is later. The municipality acquired a transfer(s) of function in 2011 and property, plant and equipment has accordingly been recognised at provisional amounts, as disclosed in 3.

Until such time as the measurement period expires and property, plant and equipment is recognised and measured in accordance with the requirements of the Standard of GRAP on Property, plant and equipment, the municipality need not comply with the Standards of GRAP on:

- Presentation of Financial Statements (GRAP 1),
- The Effects of Changes in Foreign Exchange Transactions (GRAP 4),
- Leases (GRAP 13),
- Segment Reporting (GRAP 18),

The exemption from applying the measurement requirements of the Standard of GRAP on Property, plant and equipment implies that any associated presentation and disclosure requirements need not be complied with for property, plant and equipment not measured in accordance with the requirements of the Standard of GRAP on Property, plant and equipment.

1.3 Site restoration and dismantling cost

The municipality has an obligation to dismantle, remove and restore items of property, plant and equipment. Such obligations are referred to as ‘decommissioning, restoration and similar liabilities’. The cost of an item of property, plant and equipment includes the initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located, the obligation for which an municipality incurs either when the item is acquired or as a consequence of having used the item during a particular period for purposes other than to produce inventories during that period.

1.3 Site restoration and dismantling cost (continued)

If the related asset is measured using the cost model:
- subject to (b), changes in the liability are added to, or deducted from, the cost of the related asset in the current period;
- if a decrease in the liability exceeds the carrying amount of the asset, the excess is recognised immediately in surplus or loss; and
- if the adjustment results in an addition to the cost of an asset, the municipality considers whether this is an indication that the new carrying amount of the asset may not be fully recoverable. If it is such an indication, the asset is tested for impairment by estimating its recoverable amount, and any impairment loss is recognised in surplus or loss.

If the related asset is measured using the revaluation model:
- changes in the liability alter the revaluation surplus or loss previously recognised on that asset, so that:
  - a decrease in the liability (subject to (b)) is credited to revaluation surplus in equity, except that it is recognised in surplus or loss to the extent that it reverses a revaluation deficit on the asset that was previously recognised in surplus or loss
  - an increase in the liability is recognised in surplus or loss, except that it is debited to the revaluation surplus to the extent of any credit balance existing in the revaluation surplus in respect of that asset.
- in the event that a decrease in the liability exceeds the carrying amount that would have been recognised had the asset been carried under the cost model, the excess is recognised immediately in surplus or loss; and
- a change in the liability is an indication that the asset may have to be revalued in order to ensure that the carrying amount does not differ materially from that which would be determined using fair value at the end of the reporting period. Any such revaluation is taken into account in determining the amounts to be taken to surplus or loss under (a). If a revaluation is necessary, all assets of that class are revalued.

1.4 Financial instruments

Classification

The municipality classifies financial assets and financial liabilities into the following categories:
- Financial assets at fair value through surplus or loss - held for trading
- Financial assets at fair value through surplus or loss - designated
- Held-to-maturity investment
- Loans and receivables
- Available-for-sale financial assets

Classification depends on the purpose for which the financial instruments were obtained / incurred and takes place at initial recognition. Classification is re-assessed on an annual basis, except for derivatives and financial assets designated as at fair value through surplus or loss, which shall not be classified out of the fair value through surplus or loss category.

Initial recognition and measurement

Financial instruments are recognised initially when the municipality becomes a party to the contractual provisions of the instruments.

The municipality classifies financial instruments, or their component parts, on initial recognition as a financial asset, a financial liability or an equity instrument in accordance with the substance of the contractual arrangement.

Financial instruments are measured initially at fair value, except for equity investments for which a fair value is not determinable, which are measured at cost and are classified as available-for-sale financial assets.

For financial instruments which are not at fair value through surplus or loss, transaction costs are included in the initial measurement of the instrument.

Transaction costs on financial instruments at fair value through surplus or loss are recognised in surplus or loss.

Regular way purchases of financial assets are accounted for at trade date.

1.4 Financial instruments (continued)

Subsequent measurement

Financial instruments at fair value through surplus or loss are subsequently measured at fair value, with gains and losses arising from changes in fair value being included in surplus or loss for the period.

Net gains or losses on the financial instruments at fair value through surplus or loss include dividends and interest.

Dividend income is recognised in surplus or loss as part of other income when the municipality's right to receive payment is established.

Loans and receivables are subsequently measured at amortised cost, using the effective interest method, less accumulated impairment losses.

Held-to-maturity investments are subsequently measured at amortised cost, using the effective interest method, less accumulated impairment losses.

Available-for-sale financial assets are subsequently measured at fair value. This excludes equity investments for which a fair value is not determinable, which are measured at cost less accumulated impairment losses.

Gains and losses arising from changes in fair value are recognised in equity until the asset is disposed of or determined to be impaired. Interest on available-for-sale financial assets calculated using the effective interest method is recognised in surplus or loss as part of other income. Dividends received on available-for-sale equity instruments are recognised in surplus or loss as part of other income when the municipality's right to receive payment is established.

Changes in fair value of available-for-sale financial assets denominated in a foreign currency are analysed between translation differences resulting from changes in amortised cost and other changes in the carrying amount. Translation differences on monetary items are recognised in surplus or loss, while translation differences on non-monetary items are recognised in equity.

Fair value determination

The fair values of quoted investments are based on current bid prices. If the market for a financial asset is not active (and for unlisted securities), the municipality establishes fair value by using valuation techniques. These include the use of recent arm’s length transactions, reference to other instruments that are substantially the same, discounted cash flow analysis, and option pricing models making maximum use of market inputs and relying as little as possible on entity-specific inputs.

Accounting Policies

1.4 Financial instruments (continued)

Impairment of financial assets

At each end of the reporting period the municipality assesses all financial assets, other than those at fair value through surplus or loss, to determine whether there is objective evidence that a financial asset or group of financial assets has been impaired.

For amounts due to the municipality, significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy and default of payments are all considered indicators of impairment.

In the case of equity securities classified as available-for-sale, a significant or prolonged decline in the fair value of the security below its cost is considered an indicator of impairment. If any such evidence exists for available-for-sale financial assets, the cumulative loss - measured as the difference between the acquisition cost and current fair value, less any impairment loss on that financial asset previously recognised in surplus or loss - is removed from equity as a reclassification adjustment and recognised in surplus or loss.

Impairment losses are recognised in surplus or loss.

Impairment losses are reversed when an increase in the financial asset's recoverable amount can be related objectively to an event occurring after the impairment was recognised, subject to the restriction that the carrying amount of the financial asset at the date that the impairment is reversed shall not exceed what the carrying amount would have been had the impairment not been recognised.

Reversals of impairment losses are recognised in surplus or loss except for equity investments classified as available-for-sale.

Impairment losses are also not subsequently reversed for available-for-sale equity investments which are held at cost because fair value was not determinable.

Where financial assets are impaired through use of an allowance account, the amount of the loss is recognised in surplus or loss within operating expenses. When such assets are written off, the write off is made against the relevant allowance account. Subsequent recoveries of amounts previously written off are credited against operating expenses.

Trade and other receivables

Trade receivables are measured at initial recognition at fair value, and are subsequently measured at amortised cost using the effective interest rate method. Appropriate allowances for estimated irrecoverable amounts are recognised in surplus or loss when there is objective evidence that the asset is impaired. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation, and default or delinquency in payments (more than 30 days overdue) are considered indicators that the trade receivable is impaired. The allowance recognised is measured as the difference between the asset’s carrying amount and the present value of estimated future cash flows discounted at the effective interest rate computed at initial recognition.

The carrying amount of the asset is reduced through the use of an allowance account, and the amount of the loss is recognised in surplus or loss within operating expenses. When a trade receivable is uncollectible, it is written off against the allowance account for trade receivables. Subsequent recoveries of amounts previously written off are credited against operating expenses in surplus or loss.

Trade and other receivables are classified as loans and receivables.

Trade and other payables

Trade payables are initially measured at fair value, and are subsequently measured at amortised cost, using the effective interest rate method.

Cash and cash equivalents

Cash and cash equivalents comprise cash on hand and demand deposits, and other short-term highly liquid investments that are readily convertible to a known amount of cash and are subject to an insignificant risk of changes in value. These are initially and subsequently recorded at fair value.

1.4 Financial instruments (continued)

Derecognition

Financial assets

A financial asset (or, where applicable a part of a financial asset or part of a group of similar financial assets) is derecognised where:

- the rights to receive cash flows from the asset have expired;
- the municipality retains the right to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party under a 'pass-through' arrangement; or
- the municipality has transferred its rights to receive cash flows from the asset and either
  - has transferred substantially all the risks and rewards of the asset, or
  - has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

Where the municipality has transferred its rights to receive cash flows from an asset and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognised to the extent of the municipality's continuing involvement in the asset. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the municipality could be required to repay. Where continuing involvement takes the form of a written and/or purchased option (including a cash-settled option or similar provision) on the transferred asset, the extent of the municipality's continuing involvement is the amount of the transferred asset that the municipality may repurchase, except that in the case of a written put option (including a cash-settled option or similar provision) on an asset measured at fair value, the extent of the municipality's continuing involvement is limited to the lower of the fair value of the transferred asset and the option exercise price.

Financial liabilities

A financial liability is derecognised when the obligation under the liability is discharged, cancelled or expires. Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognised in surplus or deficit.

1.5 Leases

A lease is classified as a finance lease if it transfers substantially all the risks and rewards incidental to ownership. A lease is classified as an operating lease if it does not transfer substantially all the risks and rewards incidental to ownership.

Finance leases - lessor

The municipality recognises finance lease receivables as assets on the statement of financial position. Such assets are presented as a receivable at an amount equal to the net investment in the lease.

Finance revenue is recognised based on a pattern reflecting a constant periodic rate of return on the municipality's net investment in the finance lease.

Finance leases - lessee

Finance leases are recognised as assets and liabilities in the statement of financial position at amounts equal to the fair value of the leased property or, if lower, the present value of the minimum lease payments. The corresponding liability to the lessor is included in the statement of financial position as a finance lease obligation.

The discount rate used in calculating the present value of the minimum lease payments is the interest rate implicit in the lease.

Minimum lease payments are apportioned between the finance charge and reduction of the outstanding liability. The finance charge is allocated to each period during the lease term so as to produce a constant periodic rate of on the remaining balance of the liability.

Any contingent rents are expensed in the period in which they are incurred.

1.5 Leases (continued)

Operating leases - lessor

Operating lease revenue is recognised as revenue on a straight-line basis over the lease term.

Initial direct costs incurred in negotiating and arranging operating leases are added to the carrying amount of the leased asset and recognised as an expense over the lease term on the same basis as the lease revenue.

The aggregate cost of incentives is recognised as a reduction of rental revenue over the lease term on a straight-line basis.

The aggregate benefit of incentives is recognised as a reduction of rental expense over the lease term on a straight-line basis.

Income for leases is disclosed under revenue in statement of financial performance.

Operating leases - lessee

Operating lease payments are recognised as an expense on a straight-line basis over the lease term. The difference between the amounts recognised as an expense and the contractual payments are recognised as an operating lease asset or liability.

1.6 Consumable stores

Cosumables stores are charged to the income statement upon acquisition.

1.7 Employee benefits

Short-term employee benefits

The cost of short-term employee benefits, (those payable within 12 months after the service is rendered, such as paid vacation leave and sick leave, bonuses, and non-monetary benefits such as medical care), are recognised in the period in which the service is rendered and are not discounted.

The expected cost of compensated absences is recognised as an expense as the employees render services that increase their entitlement or, in the case of non-accumulating absences, when the absence occurs.

The expected cost of surplus sharing and bonus payments is recognised as an expense when there is a legal or constructive obligation to make such payments as a result of past performance.

Defined contribution plans

Payments to defined contribution retirement benefit plans are charged as an expense as they fall due.

Payments made to industry-managed (or state plans) retirement benefit schemes are dealt with as defined contribution plans where the municipality’s obligation under the schemes is equivalent to those arising in a defined contribution retirement benefit plan.

1.8 Revenue

Revenue comprises of sales to customers and service rendered to customers. Revenue is stated at the invoice amount and is exclusive of value added taxation.

1.9 Interest income

Interest income is recognised on a time-proportion basis using the effective interest method.

1.10 Comparative figures

Where necessary, comparative figures have been reclassified to conform to changes in presentation in the current year.

1.11 Unauthorised expenditure

Unauthorised expenditure means:
- overspending of a vote or a main division within a vote; and

1.11 Unauthorised expenditure (continued)

- expenditure not in accordance with the purpose of a vote or, in the case of a main division, not in accordance with the purpose of the main division.

All expenditure relating to unauthorised expenditure is recognised as an expense in the statement of financial performance in the year that the expenditure was incurred. The expenditure is classified in accordance with the nature of the expense, and where recovered, it is subsequently accounted for as revenue in the statement of financial performance.

1.12 Fruitless and wasteful expenditure

Fruitless expenditure means expenditure which was made in vain and would have been avoided had reasonable care been exercised.

All expenditure relating to fruitless and wasteful expenditure is recognised as an expense in the statement of financial performance in the year that the expenditure was incurred. The expenditure is classified in accordance with the nature of the expense, and where recovered, it is subsequently accounted for as revenue in the statement of financial performance.

1.13 Irregular expenditure

Irregular expenditure as defined in section 1 of the PFMA is expenditure other than unauthorised expenditure, incurred in contravention of or that is not in accordance with a requirement of any applicable legislation, including -

- (a) this Act; or
- (b) the State Tender Board Act, 1968 (Act No. 86 of 1968), or any regulations made in terms of the Act; or
- (c) any provincial legislation providing for procurement procedures in that provincial government.

National Treasury practice note no. 4 of 2008/2009 which was issued in terms of sections 76(1) to 76(4) of the PFMA requires the following (effective from 1 April 2008):

Irregular expenditure that was incurred and identified during the current financial and which was condoned before year end and/or before finalisation of the financial statements must also be recorded appropriately in the irregular expenditure register. In such an instance, no further action is also required with the exception of updating the note to the financial statements.

Irregular expenditure that was incurred and identified during the current financial year and for which condonement is being awaited at year end must be recorded in the irregular expenditure register. No further action is required with the exception of updating the note to the financial statements.

Where irregular expenditure was incurred in the previous financial year and is only condoned in the following financial year, the register and the disclosure note to the financial statements must be updated with the amount condoned.

Irregular expenditure that was incurred and identified during the current financial year and which was not condoned by the National Treasury or the relevant authority must be recorded appropriately in the irregular expenditure register. If liability for the irregular expenditure can be attributed to a person, a debt account must be created if such a person is liable in law. Immediate steps must thereafter be taken to recover the amount from the person concerned. If recovery is not possible, the accounting officer or accounting authority may write off the amount as debt impairment and disclose such in the relevant note to the financial statements. The irregular expenditure register must also be updated accordingly. If the irregular expenditure has not been condoned and no person is liable in law, the expenditure related thereto must remain against the relevant programme/expenditure item, be disclosed as such in the note to the financial statements and updated accordingly in the irregular expenditure register.

1.14 Use of estimates

The preparation of annual financial statements in conformity with Standards of GRAP requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the municipality's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the annual financial statements are disclosed in the relevant sections of the annual financial statements. Although these estimates are based on management's best knowledge of current events and actions they may undertake in the future, actual results ultimately may differ from those estimates.

1.15 Conditional grants receipts

Revenue received from conditional grants and funding are recognised as revenue to the extent that the municipality has complied with any of the criteria, conditions or obligations embodied in the agreement. To the extent that the criteria, conditions or obligations have not been met a liability is recognised.

Accounting Policies

1.16 Budget information

The municipality is typically subject to budgetary limits in the form of appropriations or budget authorisations (or equivalent), which is given effect through authorising legislation, appropriation or similar.

General purpose financial reporting by the municipality shall provide information on whether resources were obtained and used in accordance with the legally adopted budget.

The annual financial statements and the budget are on the same basis of accounting therefore a comparison with the budgeted amounts for the reporting period have been included in the annual financial statements.

1.17 Donations and subsidy receipts

Income from donations and subidies is recognised as income on receipt.

Notes to the Annual Financial Statements

2. New standards and interpretations

2.1 Standards and interpretations effective and adopted in the current year

In the current year, the municipality has adopted the following standards and interpretations that are effective for the current financial year and that are relevant to its operations:

GRAP 25: Employee benefits

The objective of GRAP25 is to prescribe the accounting and disclosure for employee benefits. The Standard requires an to recognise:

- a liability when an employee has provided service in exchange for employee benefits to be paid in the future; and
- an expense when an municipality consumes the economic benefits or service potential arising from service provided by an employee in exchange for employee benefits.

GRAP25 must be applied by an employer in accounting for all employee benefits, except share based payment transactions.

GRAP25 defines, amongst others, the following:

- Employee benefits as all forms of consideration given by a municipality in exchange for service rendered by employees;
- Defined contribution plans as post-employment benefit plans under which a municipality pays fixed contributions into a separate entity (a fund) and will have no legal or constructive obligation to pay further contributions if the fund does not hold sufficient assets to pay all employee benefits relating to employee service in the current and prior periods;
- Defined benefit plans as post-employment benefit plans other than defined contribution plans;
- Multi-employer plans as defined contribution plans (other than state plans and composite social security programmes) or defined benefit plans (other than state plans) that:
  - pool the assets contributed by various entities that are not under common control; and
  - use those assets to provide benefits to employees of more than one entity, on the basis that contribution and benefit levels are determined without regard to the identity of the municipality that employs the employees concerned;
- Other long-term employee benefits as employee benefits (other than post-employment benefits and termination benefits) that is not due to be settled within twelve months after the end of the period in which the employees render the related service;
- Post-employment benefits as employee benefits (other than termination benefits) which are payable after the completion of employment;
- Post-employment benefit plans as formal or informal arrangements under which a municipality provides post-employment benefits for one or more employees;
- Short-term employee benefits as employee benefits (other than termination benefits) that are due to be settled within twelve months after the end of the period in which the employees render the related service;
- State plans as plans other than composite social security programmes established by legislation which operate as if they are multi-employer plans for all entities in economic categories laid down in legislation;
- Termination benefits as employee benefits payable as a result of either:
  - an entity’s decision to terminate an employee’s employment before the normal retirement date; or
  - an employee’s decision to accept voluntary redundancy in exchange for those benefits;
- Vested employee benefits as employee benefits that are not conditional on future employment.

The standard states the recognition, measurement and disclosure requirements of:

- Short-term employee benefits;
  - All short-term employee benefits;
  - Short-term compensated absences;
  - Bonus, incentive and performance related payments;
- Post-employment benefits: Defined contribution plans;
- Other long-term employee benefits;
- Termination benefits.

The standard states Post-employment benefits: Distinction between defined contribution plans and defined benefit plans:

- Multi-employer plans;
- Defined benefit plans where the participating entities are under common control;
- State plans;
- Composite social security programmes;
- Insured benefits.

Notes to the Annual Financial Statements

2. New standards and interpretations (continued)

The standard states, for Post-employment benefits: Defined benefit plans, the following requirements:
- Recognition and measurement;
- Presentation;
- Disclosure;
- Accounting for the constructive obligation;
- Statement of financial position;
- Asset recognition ceiling;
- Asset recognition ceiling: When a minimum funding requirement may give rise to a liability;
- Statement of financial performance.

The standard prescribes recognition and measurement for:
- Present value of defined benefit obligations and current service cost:
  - Actuarial valuation method;
  - Attributing benefits to periods of service;
  - Actuarial assumptions;
  - Actuarial assumptions: Discount rate;
  - Actuarial assumptions: Salaries, benefits and medical costs;
  - Actuarial gains and losses;
  - Past service cost.
- Plan assets:
  - Fair value of plan assets;
  - Reimbursements;
  - Return on plan assets.

The standard also deals with Entity combinations and Curtailments and settlements.

This Standard has been approved by the Board but its effective date has not yet been determined by the Minister of Finance. The effective date indicated is a provisional date and could change depending on the decision of the Minister of Finance.

The effective date of the standard is for years beginning on or after April 01, 2011.

The expects to adopt the standard for the first time in the 2012 annual financial statements.

It is unlikely that the standard will have a material impact on the municipality's annual financial statements.

GRAP 104: Financial Instruments

The standard prescribes recognition, measurement, presentation and disclosure requirements for financial instruments. Financial instruments are defined as those contracts that results in a financial asset in one municipality and a financial liability or residual interest in another municipality. A key distinguishing factor between financial assets and financial liabilities and other assets and liabilities, is that they are settled in cash or by exchanging financial instruments rather than through the provision of goods or services.

One of the key considerations in initially recognising financial instruments is the distinction, by the issuers of those instruments, between financial assets, financial liabilities and residual interests. Financial assets and financial liabilities are distinguished from residual interests because they involve a contractual right or obligation to receive or pay cash or another financial instrument. Residual interests entitle a municipality to a portion of another municipality’s net assets in the event of liquidation and, to dividends or similar distributions paid at management’s discretion.

In determining whether a financial instrument is a financial asset, financial liability or a residual interest, a municipality considers the substance of the contract and not just the legal form.

Where a single instrument contains both a liability and a residual interest component, the issuer allocates the instrument into its component parts. The issuer recognises the liability component at its fair value and recognises the residual interest as the difference between the carrying amount of the instrument and the fair value of the liability component. No gain or loss is recognised by separating the instrument into its component parts.

Financial assets and financial liabilities are initially recognised at fair value. Where a municipality subsequently measures financial assets and financial liabilities at amortised cost or cost, transactions costs are included in the cost of the asset or liability.

Notes to the Annual Financial Statements

2. New standards and interpretations (continued)

The transaction price usually equals the fair value at initial recognition, except in certain circumstances, for example, where interest free credit is granted or where credit is granted at a below market rate of interest.

Concessionary loans are loans either received by or granted to another municipality on concessionary terms, e.g. at low interest rates and flexible repayment terms. On initial recognition, the fair value of a concessionary loan is the present value of the agreed contractual cash flows, discounted using a market related rate of interest for a similar transaction. The difference between the proceeds either received or paid and the present value of the contractual cash flows is accounted for as non-exchange revenue by the recipient of a concessionary loan in accordance with Standard of GRAP on Revenue from Non-exchange Revenue Transactions (Taxes and Transfers), and using the Framework for the Preparation and Presentation of Financial Statements (usually as an expense) by the grantor of the loan.

Financial assets and financial liabilities are subsequently measured either at fair value or, amortised cost or cost. A municipality measures a financial instrument at fair value if it is:

- a derivative;
- a combined instrument designated at fair value, i.e. an instrument that includes a derivative and a non-derivative host contract;
- held-for-trading;
- a non-derivative instrument with fixed or determinable payments that is designated at initial recognition to be measured at fair value;
- an investment in a residual interest for which fair value can be measured reliably; and
- other instruments that do not meet the definition of financial instruments at amortised cost or cost.

Derivatives are measured at fair value. Combined instruments that include a derivative and non-derivative host contract are accounted for as follows:

- Where an embedded derivative is included in a host contract which is a financial instrument within the scope of this Standard, an entity can designate the entire contract to be measured at fair value or, it can account for the host contract and embedded derivative separately using GRAP 104. A municipality is however required to measure the entire instrument at fair value if the fair value of the derivative cannot be measured reliably.
- Where the host contract is not a financial instrument within the scope of this Standard, the host contract and embedded derivative are accounted for separately using GRAP 104 and the relevant Standard of GRAP.

Financial assets and financial liabilities that are non-derivative instruments with fixed or determinable payments, for example deposits with banks, receivables and payables, are measured at amortised cost. At initial recognition, a municipality can however designate such an instrument to be measured at fair value.

A municipality can only measure investments in residual interests at cost where the fair value of the interest cannot be determined reliably.

Once a municipality has classified a financial asset or a financial liability either at fair value or amortised cost or cost, it is only allowed to reclassify such instruments in limited instances.

An entity derecognises a financial asset, or the specifically identified cash flows of an asset, when:

- the cash flows from the asset expire, are settled or waived;
- significant risks and rewards are transferred to another party; or
- despite having retained significant risks and rewards, a municipality has transferred control of the asset to another municipality.

A municipality derecognises a financial liability when the obligation is extinguished. Exchanges of debt instruments between a borrower and a lender are treated as the extinguishment of an existing liability and the recognition of a new financial liability. Where a municipality modifies the term of an existing financial liability, it is also treated as the extinguishment of an existing liability and the recognition of a new liability.

A municipality cannot offset financial assets and financial liabilities in the statement of financial position unless a legal right of set-off exists, and the parties intend to settle on a net basis.

GRAP 104 requires extensive disclosures on the significance of financial instruments for a municipality's statement of financial position and statement of financial performance, as well as the nature and extent of the risks that a municipality is exposed to as a result of its annual financial statements. Some disclosures, for example the disclosure of fair values for instruments measured at amortised cost or cost and the preparation of a sensitivity analysis, are encouraged rather than required.

Notes to the Annual Financial Statements

2. New standards and interpretations (continued)

GRAP 104 does not prescribe principles for hedge accounting. A municipality is permitted to apply hedge accounting, as long as the principles in IAS 39 are applied.

This Standard has been approved by the Board but its effective date has not yet been determined by the Minister of Finance. The effective date indicated is a provisional date and could change depending on the decision of the Minister of Finance.

The effective date of the standard is for years beginning on or after April 01, 2011.

The municipalty expects to adopt the standard for the first time in the 2012 annual financial statements.

It is unlikely that the amendment will have a material impact on the municipality's annual financial statements.

3. Property, plant and equipment

	2011			2010		
	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value
Land	3	-	3	3	-	3
Buildings	6,681,221	-	6,681,221	6,681,221	-	6,681,221
Plant and machinery	17,449,268	-	17,449,268	17,449,268	-	17,449,268
Furniture and fixtures	3,708,499	-	3,708,499	3,508,681	-	3,508,681
Motor vehicles	19,045,452	-	19,045,452	17,021,352	-	17,021,352
Office equipment	527,922	-	527,922	527,922	-	527,922
IT equipment	3,578,391	-	3,578,391	1,853,965	-	1,853,965
Infrastructure	31,311,482	-	31,311,482	8,148,237	-	8,148,237
Community	1,869,702	-	1,869,702	1,677,722	-	1,677,722
Assets under construction	26,564,284	-	26,564,284	8,901,582	-	8,901,582
Total	**110,736,224**	**-**	**110,736,224**	**65,769,953**	**-**	**65,769,953**

Reconciliation of property, plant and equipment - 2011

	Opening balance	Additions	Transfers	Total
Land	3	-	-	3
Buildings	6,681,221	-	-	6,681,221
Plant and machinery	17,449,268	-	-	17,449,268
Furniture and fixtures	3,508,681	199,818	-	3,708,499
Motor vehicles	17,021,352	2,024,100	-	19,045,452
Office equipment	527,922	-	-	527,922
IT equipment	1,853,965	1,724,426	-	3,578,391
Infrastructure	8,148,237	16,276,368	6,886,877	31,311,482
Community	1,677,722	191,980	-	1,869,702
Assets under construction	8,901,582	24,549,579	(6,886,877)	26,564,284
	65,769,953	**44,966,271**	**-**	**110,736,224**

3. Property, plant and equipment (continued)

Reconciliation of property, plant and equipment - 2010

	Opening balance	Additions	Total
Land	3	-	3
Buildings	14	6,681,207	6,681,221
Plant and machinery	17,415,096	34,172	17,449,268
Furniture and fixtures	2,799,212	709,469	3,508,681
Motor vehicles	17,021,352	-	17,021,352
Office equipment	412,051	115,871	527,922
IT equipment	1,757,972	95,993	1,853,965
Infrastructure	246	8,147,991	8,148,237
Community	1,677,722	-	1,677,722
Assets under construction	-	8,901,582	8,901,582
	41,083,668	**24,686,285**	**65,769,953**

Transitional provisions

Property, plant and equipment recognised at provisional amounts

In accordance with the transitional provisions as per Directive 4 of the GRAP Reporting Framework, as disclosed in note , certain property, plant and equipment with a carrying value of R 110,736,224 (2010: R 65,769,953) was recognised at provisional amounts. Thembisile Hani Local Municipality has taken advantage of the transitional provisions permitted by the Accounting Standards Board, in terms of Directive 4 issued in March 2009, with respect to the measurement of property, plant and equipment as set out in paragraph 73 to 83. Carrying amounts of property, plant and equipment carried at provisional amounts are as follows:

Due to initial adoption of GRAP 17

	2011	2010
Land	3	3
Buildings	6,681,221	6,681,221
Plant and machinery	17,449,268	17,449,268
Furniture and fixtures	3,708,499	3,508,681
Motor vehicles	19,045,452	17,021,352
Office equipment	527,922	527,922
IT equipment	3,578,391	1,853,965
Infrastructure	31,311,482	8,148,237
Community	1,869,702	1,677,722
Assets under construction	26,564,284	8,901,582

Steps taken to establish the values of property, plant and equipment recognised at provisional amounts due to the initial adoption of GRAP 17, is as follows:

The municipality has sourced the service of a credible service provider which will assist in determining the valuation of Property, plant and equipment.

The date at which full compliance with GRAP 17 is expected, is Saturday, June 30, 2012.

A register containing the information required by section 63 of the Municipal Finance Management Act is available for inspection at the registered office of the municipality.

Notes to the Annual Financial Statements

Figures in Rand	2011	2010

4. Trade and other receivables

Trade debtors	126,117,770	88,373,596
Less provision for bad debts	(125,874,125)	(88,212,225)
Total net trade debtors	243,645	161,371
Other debtors	16,775,165	14,678,020
	17,018,814	**14,839,391**

Trade and other receivables past due but not impaired

Trade and other receivables which are less than 3 months past due are not considered to be impaired. At June 30, 2011, R 243,645 (2010: R 161,371) were past due but not impaired.

The ageing of amounts past due but not impaired is as follows:

1 month past due	101,412	106,196
2 months past due	13,767	10,509
3 months past due	128,466	44,667

Trade and other receivables impaired

As of June 30, 2011, trade and other receivables of R 126,117,770 (2010: R 88,373,596) were impaired and provided for.

The amount of the provision was R 125,874,125 as of June 30, 2011 (2010: R 88,212,225).

3 to 6 months	1,125,652	1,098,598
Over 6 months	124,748,473	87,113,627

Reconciliation of provision for impairment of trade and other receivables

Opening balance	88,212,225	63,364,452
Provision for impairment	37,661,900	24,847,773
	125,874,125	**88,212,225**

5. VAT receivable

VAT	6,294,052	28,323,967

6. Cash and cash equivalents

Cash and cash equivalents consist of:

Cash on hand	5,000	5,000
Bank balances	36,665,161	50,114,640
Short-term deposits	47,914,072	2,211,210
	84,584,233	**52,330,850**

The municipality have issued cheques and received cash to the net value of R 10,549,375 (2010: R 7,776,425) which have not yet gone through the primary bank account as detailed below.

Notes to the Annual Financial Statements

Figures in Rand	2011	2010

6. Cash and cash equivalents (continued)

The municipality had the following bank accounts

Account number / description	Bank statement balances			Cash book balances		
	June 30, 2011	June 30, 2010	June 30, 2009	June 30, 2011	June 30, 2010	June 30, 2009
First National Bank - Current Account - 620-262-96427	49,065,921	52,322,863	851,668	34,516,546	44,546,438	19,218,741
First National Bank - Call Deposit - 621-470-52427	1,609,149	1,527,722	1,924,296	1,609,149	1,527,722	1,924,296
ABSA BANK - Current Account - 407-299-1043	-	4,089,990	43,958	-	4,089,990	43,958
ABSA Bank - Call Account - 908-006-3497	-	33,061	31,995	-	33,061	31,995
Capitec Bank - Current Account - 117-301-4177	2,148,615	1,478,212	5,259,481	2,148,615	1,478,212	5,259,481
Nedbank - Call Deposit - 037-881-5279-27000001	-	650,427	650,427	-	650,427	650,427
Investec Bank - Account Type - 110-0463-500450	46,304,924	-	-	46,304,924	-	-
Absa Bank - Call Deposit - 206-847-1552	-	-	5,000,000	-	-	5,000,000
Total	**99,128,609**	**60,102,275**	**13,761,825**	**84,579,234**	**52,325,850**	**32,128,898**

7. Unspent conditional grants

Unspent conditional grants and receipts comprises of:

Unspent conditional grants and receipts		
MIG grant	47,990,019	37,213,274
FMG grant	-	301,814
International Electric Grant	-	216,718
MSIG grant	326,043	-
EPWP	1,103,580	-
Nkangala District Municipality	-	680,672
	49,419,642	**38,412,478**

Movement during the year

Balance at the beginning of the year	73,148,128	9,625,680
Additions during the year	79,047,000	67,638,000
Income recognition during the year	(102,775,486)	(38,851,202)
	49,419,642	**38,412,478**

The nature and extent of government grants recognised in the annual financial statements and an indication of other forms of government assistance from which the municipality has directly benefited; and

Unfulfilled conditions and other contingencies attaching to government assistance that has been recognised.

See note for reconciliation of grants from National/Provincial Government.

These amounts are invested in a ring-fenced investment until utilised.

Figures in Rand	2011	2010

8. Provisions

Reconciliation of provisions - 2011

	Opening Balance	Additions	Total
Environmental rehabilitation	8,511,798	114,362	8,626,160

Reconciliation of provisions - 2010

	Opening Balance	Additions	Total
Environmental rehabilitation	-	8,511,798	8,511,798

The municipality has 2 dumping sites, one in Kgwaggafontein which is 3,5 hectares and the other one in Kwamhlanga which is 5.4 hectares.

The rehabilitation cost estimate was based on the rehabilitation cost per square meter as applicable to other similar municipalities and adjusted for inflation.

The dumping site provision represents management's best estimate of the municipality's liability to restore the dumping site.

9. Trade and other payables

	2011	2010
Other creditors	604,530	977,217
Retentions	5,122,610	3,143,419
Accrued leave pay	2,632,772	2,021,075
Income collected on behalf of PRODIBA	1,353,772	496,001
Accrued expenses	4,570,787	15,389,987
Other deposits	72,208	45,039
	14,356,679	**22,072,738**

10. Revenue

	2011	2010
Property rates	3,394,967	3,752,162
Service charges	28,646,786	20,959,348
Rental of facilities & equipment	353,298	250,124
Fines	72,140	42,307
Licences and permits	6,225,601	7,270,436
Government grants & subsidies	248,889,189	192,311,142
	287,581,981	**224,585,519**

The amount included in revenue arising from exchanges of goods or services are as follows:		
Service charges	28,646,786	20,959,348
Rental of facilities & equipment	353,298	250,124
Licences and permits	6,225,601	7,270,436
	35,225,685	**28,479,908**

Notes to the Annual Financial Statements

Figures in Rand	2011	2010

10. Revenue (continued)

The amount included in revenue arising from non-exchange transactions is as follows:		
Property rates and traffic fines		
Property rates	3,394,967	3,752,162
Fines	72,140	42,307
Grant income		
Grant receipts	248,889,189	192,311,142
	252,356,296	**196,105,611**

Notes to the Annual Financial Statements

Figures in Rand	2011	2010

11. Government grants and subsidies

Equitable share	172,932,353	139,973,939
MSIG grant	423,957	735,000
MIG grant	63,311,255	35,161,735
Water subsidy	7,917,000	12,751,000
International electric grant	216,718	1,241,282
FMG grant	3,301,814	2,448,186
EPWP	105,420	-
Nkangala District Municipality	680,672	-
	248,889,189	**192,311,142**

Equitable Share

In terms of the Constitution, this grant is used to subsidise the provision of basic services to indigent community members.

All registered indigents receive a monthly subsidy of R - (2010: R -), which is funded from the grant.

MIG grant

Balance unspent at beginning of year	37,213,274	8,945,008
Current-year receipts	74,088,000	63,430,001
Conditions met - transferred to revenue	(63,311,255)	(35,161,735)
	47,990,019	**37,213,274**

Conditions still to be met - remain liabilities (see note 7).

FMG grant

Balance unspent at beginning of year	301,814	-
Current-year receipts	3,000,000	2,750,000
Conditions met - transferred to revenue	(3,301,814)	(2,448,186)
	-	**301,814**

International electric grant

Balance unspent at beginning of year	216,718	-
Current-year receipts	-	1,458,000
Conditions met - transferred to revenue	(216,718)	(1,241,282)
	-	**216,718**

MSIG grant

Current-year receipts	750,000	735,000
Conditions met - transferred to revenue	(423,957)	(735,000)
	326,043	**-**

Conditions still to be met - remain liabilities (see note 7).

Notes to the Annual Financial Statements

Figures in Rand	2011	2010

11. Government grants and subsidies (continued)

EPWP

Current-year receipts	1,209,000	-
Conditions met - transferred to revenue	(105,420)	-
	1,103,580	**-**

Conditions still to be met - remain liabilities (see note 7).

Nkangala District Municipality

Balance unspent at beginning of year	680,672	680,672
Conditions met - transferred to revenue	(680,672)	-
	-	**680,672**

12. Other income

Other income	4,133,710	5,322,422

The amount included in other revenue arising from exchanges of goods or services are as follows:		
Application for tender documents	398,358	319,483
Sale of houses	129,568	43,192
Sale of stands	225,342	262,438
Septic Tank Fees	168,107	109,849
	921,375	**734,962**

The amount included in other revenue arising from non-exchange transactions is as follows:		
Donated assets		
Deemed income from donated assets	2,154,407	-

Notes to the Annual Financial Statements

Figures in Rand	2011	2010

13. General expenses

Auditors remuneration	1,916,491	1,508,030
Provision for rehabilitation of dumping site	114,362	8,511,798
Consulting and professional fees	3,234,648	6,650,416
Prodiba	1,027,850	384,721
Insurance	983,115	1,686,268
Sanitation	19,229,963	17,443,991
VIP Toilets	2,140,838	-
Lease rentals on operating lease	1,022,586	1,139,893
Legal costs	1,638,492	1,542,488
Motor vehicle expenses	2,026,073	1,557,755
VAT recovery expenses	5,735,960	-
Valuation roll	1,184,211	-
Fuel and oil	1,993,346	1,469,987
Data cleansing - indigent register	3,241,142	-
Other expenses	7,154,824	6,442,681
Security (Guarding of municipal property)	6,872,630	6,229,324
Telephone and fax	415,252	1,234,538
Travel - local	2,422,902	954,059
Electricity and water services	2,429,923	2,114,463
Free basic water	6,519,015	7,030,543
Free basic electricity	2,634,937	2,983,107
	73,938,560	**68,884,062**

Notes to the Annual Financial Statements

Figures in Rand	2011	2010

14. Operating surplus

Operating surplus for the year is stated after accounting for the following:

Income from controlled entities		
Interest	1,544,945	2,853,830
Operating lease charges		
Premises		
• Contractual amounts	918,259	913,530
Equipment		
• Contractual amounts	104,327	226,363
	1,022,586	**1,139,893**
Employee costs	59,028,907	53,223,322

15. Employee related costs

Basic	35,513,096	29,364,075
Medical aid - company contributions	2,686,426	2,791,392
UIF	219,580	192,089
WCA	-	493,371
SDL	400,332	232,779
Leave pay provision charge	611,696	1,061,638
Cellphone allowances	988,799	-
Councillor's allowance	12,378,701	12,469,159
Post-employment benefits - Pension - Defined contribution plan	5,180,218	4,712,100
Travel, motor car, accommodation, subsistence and other allowances	96,000	1,576,947
Housing benefits and allowances	954,059	329,772
	59,028,907	**53,223,322**

Remuneration of municipal manager

Annual Remuneration	-	459,490
Car Allowance	-	100,000
Contributions to UIF, Medical and Pension Funds	-	29,123
	-	**588,613**

Remuneration of chief finance officer

Annual Remuneration	-	214,954
Car Allowance	-	36,000
Contributions to UIF, Medical and Pension Funds	-	2,668
	-	**253,622**

Remuneration of executive directors

Annual Remuneration	1,530,730	1,110,273
Car Allowance	170,000	300,707
Performance Bonuses	-	14,000
Contributions to UIF, Medical and Pension Funds	59,342	173,034
	1,760,072	**1,598,014**

Notes to the Annual Financial Statements

Figures in Rand	2011	2010

16. Debt impairment

Debt impairment	37,661,160	24,867,415

17. Interest income

Interest income		
Investments	1,544,945	2,853,830
Bank	2,623,796	1,228,865
Consumer debtors	9,279,587	5,548,176
	13,448,328	**9,630,871**

18. Auditors' remuneration

Fees	1,916,491	1,508,030

19. Grants and subsidies paid

Other subsidies		
Grant expenditure	809,998	1,241,282

20. Bulk purchases

Water	75,180,534	61,859,472

21. Cash generated from operations

Surplus	53,963,695	24,758,379
Adjustments for:		
Debt impairment	37,661,160	24,867,415
Movements in provisions	114,362	8,511,798
Provision for leave	1,662,752	1,061,638
Interest on consumer debtors	(13,448,327)	(9,630,872)
Income raised on donated assets	(2,154,407)	-
Changes in working capital:		
Trade and other receivables	(39,840,579)	(32,809,577)
Trade and other payables	(7,716,064)	(15,434,337)
VAT	22,029,915	(4,594,802)
Unspent conditional grants	11,007,164	25,892,852
Movement in provisions	-	6,654,454
Interest on consumer debtors	13,448,327	9,630,872
	76,727,998	**38,907,820**

22. Commitments

Authorised capital expenditure

Already contracted for but not provided for		
• Property, plant and equipment	57,579,815	48,215,130

23. Contingencies

We are not aware of any contingent liabilities which the municipality might have.

Notes to the Annual Financial Statements

Figures in Rand	2011	2010

24. Related parties

Relationships

	Refer to accounting officer's report note
Fellow Municipalities	Kungwini Local Municipality
	Dr JS Moroka Local Municipality
	Nkgangala District Municipality
Members of key management	Councillors
	Section 57 managers

Related party balances

	2011	2010
Conditional Grannts - Owing to related parties		
Nkangala District Municipality	-	(680,672)
Amounts included in Trade receivable (Trade Payable) regarding related parties		
Dr JS Moroka Local Municipality	(79,727)	(34,276)
Kungwini Local Municipality	(1,935,951)	(6,942,225)

Related party transactions

	2011	2010
Purchases from (sales to) related parties		
Dr JS Moroka Local Municipality	1,169,029	741,299
Kungwini Local Municipality	20,121,515	15,871,456
Remuneration		
Councillors	1,875,867	12,433,727
Section 57 Managers	1,803,822	2,440,247

25. Accounting Officer and Chief Financial Officer's emoluments

No emoluments were paid to the accounting officer and the chief financial officer during the year.

Executive

2010	Emoluments	Pension paid or receivable	Compensation for loss of office	Gain on exercise of options	Total
For services as directors	1,598,012	-	-	-	1,598,012

Notes to the Annual Financial Statements

Figures in Rand	2011	2010

26. Prior period errors

During the current year, the municipality performed a 100% count and valuation of property, plant and equipment in order to present an accurate asset register which resulted in the recognition of errors in the fixed assets register in prior years.

The municipality did not provide for future rehabilitation costs on their 2 dumping sites.

The municipality did not provide for leave.

Reserves for the Housing Development Fund were incorrectly presented without the existence of the scheme assets.

Revenue from the water users was incorrectly treated as deposits.

80% of collections from motor licence fees was incorrectly treated as the municipality's income with payments to the Department of Roads and Transport being incorrectly treated as the municipality's expenditure.

Collections for the printing of licences which is payable to PRODIBA as per regulation were incorrectly treated as the municipality's income.

During the year debtors with no movements in their accounts for the previous 3 years were found not to have been provided for as irrecoverable.

The municipality incorrectly raised a liability for consumer deposits which were never received.

During the year costs for regravelling of roads were found to be incorrectly capitalised to infrastructure assets.

During the year payments to suppliers for goods and services relating to prior year were found to be incorrectly recorded in the current year.

The muncipality did not record some of the income received per the bank statements as well as payments made per the bank statements.

The correction of the errors results in adjustments as follows:

Statement of financial position		
Property, plant and equipment		45,328,982
Trade and other payables		5,755,936
Cash and cash equivalents		(29,883,802)
Unspent conditional grants		(7,471,635)
Provisions		(8,511,798)
Housing development fund		4,671,486
Opening Accumulated surplus or deficit		(65,725,287)
Trade and other receivables		(16,188,445)
VAT receivable	-	1,599,102
Statement of financial performance		
General expenses		63,195,759
Revenue		7,229,702

Notes to the Annual Financial Statements

Figures in Rand		2011	2010

26. Prior period errors (continued)

Cash flow statement

Cash flow from operating activities	
Cash paid to suppliers	68,951,697
Cash received from customers	(7,359,646)
	61,592,051
Cash flow from investing activities	
Acquisition of property plant and equipment	17,520,997
Cash flow from financing activities	
Unspent conditional grants	7,471,635

27. Risk management

Capital risk management

The municipality's objectives when managing capital are to safeguard the municipality's ability to continue as a going concern in order to provide returns for members and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

There are no externally imposed capital requirements.

There have been no changes to what the municipality manages as capital, the strategy for capital maintenance or externally imposed capital requirements from the previous year.

Less: Cash and cash equivalents	6	84,584,233	52,330,850
Net debt		(84,584,233)	(52,330,850)
Total equity		146,230,842	92,267,147
Total capital		**61,646,609**	**39,936,297**

Financial risk management

Liquidity risk

The municipality’s risk to liquidity is a result of the funds available to cover future commitments. The municipality manages liquidity risk through an ongoing review of future commitments and credit facilities.

Interest rate risk

As the municipality has no significant interest-bearing assets, the municipality’s income and operating cash flows are substantially independent of changes in market interest rates.

Credit risk

Credit risk consists mainly of cash deposits, cash equivalents, derivative financial instruments and trade debtors. The municipality only deposits cash with major banks with high quality credit standing and limits exposure to any one counter-party.

Trade receivables comprise a widespread customer base. Management evaluated credit risk relating to customers on an ongoing basis. If customers are independently rated, these ratings are used. Otherwise, if there is no independent rating, risk control assesses the credit quality of the customer, taking into account its financial position, past experience and other factors. Individual risk limits are set based on internal or external ratings in accordance with limits set by the board. The utilisation of credit limits is regularly monitored. Sales to retail customers are settled in cash or using major credit cards. Credit guarantee insurance is purchased when deemed appropriate.

28. Going concern

The annual financial statements have been prepared on the basis of accounting policies applicable to a going concern. This basis presumes that funds will be available to finance future operations and that the realisation of assets and settlement of liabilities, contingent obligations and commitments will occur in the ordinary course of business.

29. Events after the reporting date

- The Technical Manger was suspended.
- The suspension does not have any financial impact.

30. Fruitless and wasteful expenditure

	2011	2010
Fruitless and wasteful expenditure	-	694,836

31. Irregular expenditure

	2011	2010
Opening balance	20,522,975	-
Add: Irregular Expenditure - current year	39,499,002	20,522,975
	60,021,977	**20,522,975**

Details of irregular expenditure – prior year

	Disciplinary steps taken/criminal proceedings	
Proper supply chain procedures were not followed during the procurement of the above transactions of goods and services.	An investigation where top management was invlved is in progress and the outcome is not yet known.	20,522,975

Details of irregular expenditure - current year

	Action taken by the municipality	
There is no proof of evaluation and adjudication minutes. These contracts were awarded in the 2009/2010 finacial year and are still continuing in the 2010/2011 financial year. Council is in the process of condoning these payments.	The municipality is busy trying to locate the said documents.	28,411,785
There is no proof of supplier invoices to support payments made. These contracts were awarded in the 2009/2010 finacial year and are still continuing in the 2010/2011 financial year. Council is in the process of condoning these payments.	The muncipality is contacting suppliers to re-issue invoices.	108,699
There is no proof of tender documents. These contracts were awarded in the 2009/2010 finacial year and are still continuing in the 2010/2011 financial year. Council is in the process of condoning these payments.	The municipality is busy trying to locate the said documents.	1,232,053
There is no proof of minutes for the bid specifications committee. These contracts were awarded in the 2009/2010 finacial year and are still continuing in the 2010/2011 financial year. Council is in the process of condoning these payments.	The municipality is busy trying to locate the said documents.	9,696,465
		39,449,002

32. Reconciliation between budget and statement of financial performance

Reconciliation of budget surplus/deficit with the surplus/deficit in the statement of financial performance:

	2011	2010
Net surplus per the statement of financial performance	53,963,695	24,758,379

Notes to the Annual Financial Statements

Figures in Rand	2011	2010

33. Reconciliation between budget and cash flow statement

Reconciliation of budget surplus/deficit with the net cash generated from operating, investing and financing activities:

	2011	2010
Operating activities		
Actual amount as presented in the budget statement	76,727,998	106,507,631
Investing activities		
Actual amount as presented in the budget statement	(44,474,615)	(106,507,631)
Net cash generated from operating, investing and financing activities	**32,253,383**	**-**

Detailed Income statement

Figures in Rand	Note(s)	2011	2010
Revenue			
Property rates		3,394,967	3,752,162
Service charges		28,646,786	20,959,348
Rental of facilities and equipment		353,298	250,124
Fines		72,140	42,307
Licences and permits		6,225,601	7,270,436
Government grants & subsidies		248,889,189	192,311,142
Other income		4,133,710	5,322,422
Interest received - investment		13,448,328	9,630,871
Total Revenue		**305,164,019**	**239,538,812**
Expenditure			
Personnel		(59,028,907)	(53,223,322)
Debt impairment		(37,661,160)	(24,867,415)
Repairs and maintenance		(4,581,165)	(4,704,880)
Bulk purchases		(75,180,534)	(61,859,472)
Grants and subsidies paid		(809,998)	(1,241,282)
General Expenses	13	(73,938,560)	(68,884,062)
Total Expenditure		**(251,200,324)**	**(214,780,433)**
Surplus for the year		**53,963,695**	**24,758,379**

The supplementary information presented does not form part of the annual financial statements and is unaudited